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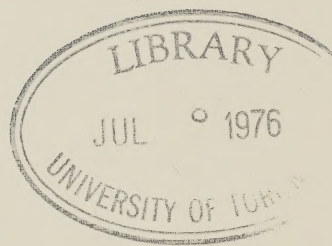
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idb **INDUSTRIAL
DEVELOPMENT BANK**

Government
Publications



**A source
of financing
for Canadian business**



Industrial Development Bank

Established by Act of Parliament in 1944 as a subsidiary of the Bank of Canada.

IDB makes term loans to new or existing businesses in Canada, particularly those of smaller size, which are unable to obtain the required financing from other lenders on reasonable terms and conditions.

If you need financial assistance to help start, modernize or expand an enterprise or for some worthwhile project for your business, you are invited to read this booklet and discuss your proposal, in confidence, at the nearest IDB office.



The activities and facilities of some IDB customers are illustrated by the photographs on the following pages.

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General requirements

Under the provisions of the Industrial Development Bank Act, IDB can consider an application for financing where these general requirements are met:

The financing is required for a business in Canada.

IDB lends to almost every type of business, including manufacturing and commercial businesses...whole-sale and retail trade...primary industry, including agriculture...secondary industry...tourist, recreational and service businesses...construction trades...professional services...transportation...and other businesses as well.

The business need not be an existing one—IDB has helped finance the establishment of many new enterprises.

The required financing is not available from other sources on reasonable terms and conditions.

IDB supplements the services of other lenders. Where there is a possibility that required financing can be obtained on reasonable terms and conditions from sources other than IDB, such possibilities should be investigated before an approach is made to IDB.

Other sources of funds include other lenders, private sources, public financing and financial assistance provided for certain categories of business by legislation such as Small Businesses Loans Act, Fisheries Improvement Loans Act, Farm Improvement Loans Act, and Farm Credit Act.

IDB gives particular consideration to the financial needs of small businesses. Around half the loans are for amounts of \$25,000 or less and most of them are for amounts of less than \$100,000. The Bank also makes larger loans, but the larger the amount required the greater may be the possibility that the financing is available from other sources on reasonable terms and conditions.

There is a reasonable amount invested (or to be invested) in the business by persons other than IDB.

Future earnings of the business are expected to be sufficient to repay IDB...and to provide for other needs of the business.

IDB must be satisfied that the proposal is sound and that management is capable. The earnings prospects of the business are of major importance in determining the amount which the Bank can advance towards any worthwhile project.

Appropriate security is available to IDB.

For the nature of the security which usually supports an IDB loan, please refer to page 6.



Purposes for which IDB lends

To finance the purchase of fixed assets.

Most IDB loans are used to purchase land and buildings...to alter or enlarge existing buildings...to construct new buildings...or to purchase machinery and equipment.

To strengthen working capital.

A business sometimes finds that purchases of equipment—or other capital expenditures—have reduced working capital to an unsatisfactory level. In such cases IDB will consider a loan to restore working capital.

Where a business finds that the repayment provisions of existing term obligations are too burdensome in relation to its current earning power and working capital needs, and present creditors are unwilling to grant relief by accepting a modified rate of repayment, IDB will consider a loan.

As a general rule, IDB does not provide funds to finance inventories or receivables as an alternative to borrowings from chartered banks or from other sources of current financing. However, where a growing business is short of working capital and there is a basis for a term loan secured by mortgage, the Bank will consider an application for a working capital loan to supplement current financing from other sources.

To finance the establishment of new businesses.

To finance a change of ownership.

IDB considers applications to help finance a change of ownership of a

business provided that the business will benefit by the change. IDB officers will be glad to discuss a prospective loan to assist in situations of this kind.

The Bank can consider an application for additional financing from a business already having an IDB loan. In fact, many businesses have obtained IDB assistance on more than one occasion.



Terms of IDB loans

Rate of interest.

The Bank's rate of interest on new loans changes from time to time in keeping with the general level of interest rates in Canada. The rate of interest currently applicable to new IDB loans may be ascertained at any office of the Bank. Interest is calculated on the outstanding loan balance.

Repaying the loan.

The repayment of an IDB loan is usually by way of monthly instalments of principal and interest. The length of the repayment period is tailored to suit the circumstances and depends among other things on the prospective earnings of the business, the extent to which future earnings may be needed to finance the purchase of additional fixed assets or to improve working capital, and the type of assets pledged as security.

Most IDB loans are repaid within ten years and a loan may, if the borrower wishes, be prepaid at any time before maturity upon payment to the Bank of a standard prepayment fee.

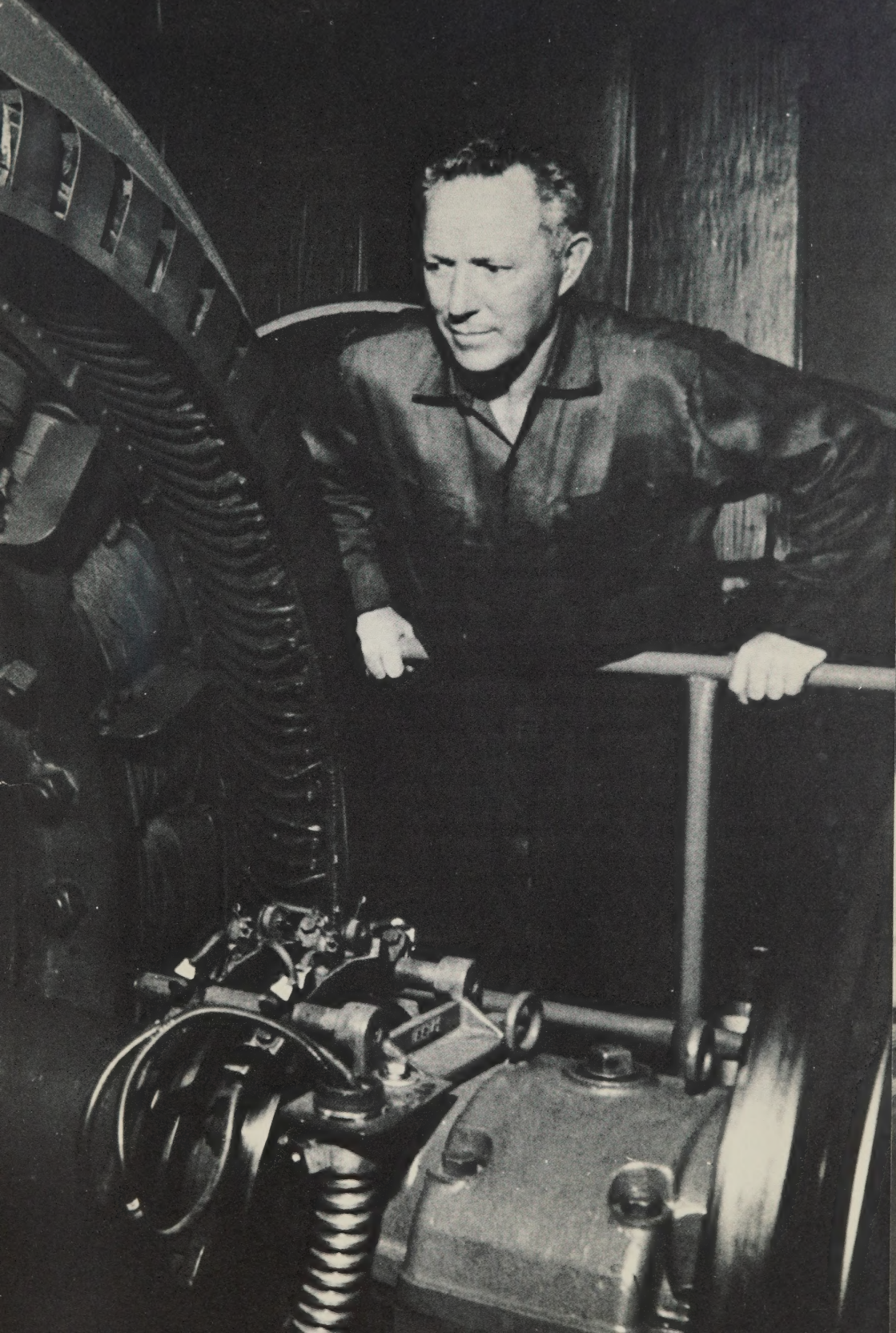
Security for the loan.

As a general rule, the security for an IDB loan takes the form of a first charge on the fixed assets of the borrowing business. To enable the Bank to obtain this security, it may sometimes be necessary to retire a remaining balance of an existing mortgage debt. The method of taking security varies from loan to loan and according to the laws of the various provinces. It is usually by realty mort-

gage, chattel mortgage, or mortgage bond. IDB also can enter into conditional sales agreements and, in the case of transportation equipment, can purchase equipment trust certificates.

For an incorporated business, the personal guarantee of the owner for a portion of the loan may be required. Where a corporate borrower is a subsidiary of another corporation or is closely related to another company, it may be necessary for the parent or affiliated company to guarantee the loan.

Borrowers are required to maintain adequate insurance on the assets mortgaged to the Bank, as they normally would in any case. In some instances, insurance is required on the life of the owner of the business.



How an application becomes a loan

Considering the loan application.

When it appears that IDB may be able to assist in a proposed project, full information regarding the project, and the business will be requested by the Bank so that the proposal can receive careful study by IDB officers. This supporting material should be supplied at the earliest possible time as, until it has been received by the Bank, the required study of the proposal cannot be made or a formal application proceeded with.

During the consideration of an application the applicant's place of business will usually be visited by an IDB officer to inspect the premises and equipment, and to have "on the spot" discussions with the owners of the business and the key individuals responsible for its operation.

No fee is charged for the investigation of a proposal. There is no obligation on an applicant's part until a loan is approved by the Bank and accepted by the applicant.

The offer of credit.

When a loan has been approved, the applicant receives from the IDB an offer of credit in writing which sets out the terms of the loan.

Preparing the security.

Before the loan proceeds can be disbursed by the Bank, the necessary legal documents must be prepared. This usually involves searching land titles, obtaining descriptions of machinery and equipment, and drawing up a mortgage, etc. The documents need to be approved by a solicitor (or notary) acting for the Bank. In line with customary lending practice, legal costs are paid by the borrower.

Disbursing the loan.

After completion of the security documents, the loan proceeds are advanced in stages as needed to pay for the project. Where the borrower is providing part of the financing, the borrower's contribution is used before IDB's funds are disbursed.

Equity financing and underwriting

IDB can provide financing by purchasing some of the common or preferred shares of a business incorporated under federal or provincial statutes. Financing can also take the form of purchasing a debenture convertible into common shares. The Bank would not normally acquire more than a minor portion of the common shares of a company. Such equity financing would usually be

provided along with a term loan secured by the fixed assets of the business.

IDB can enter into or participate in underwriting agreements in respect of stocks, bonds or debentures issued by a corporation when a public issue would be the appropriate method of financing but could not be marketed on reasonable terms and conditions without underwriting assistance of IDB.



Advisory services

Under its Advisory Services program, the Bank helps promote good management practices in small and medium-size Canadian businesses. It is issuing a series of pamphlets under the general heading of "Minding Your Own Business" which are available without charge from any IDB office. These examine business problems and methods of interest to small businesses. Also, management

seminars for businessmen are held in smaller centres across Canada. They cover topics of particular interest to owners and managers of small businesses. Information about these seminars can be obtained from any branch office, where there is also a library of reference booklets concerning small business management which can be seen and consulted upon request.

To obtain more information about IDB's services

If you wish further information, get in touch with the IDB office serving the area in which your business is located. The Bank has branch offices from coast to coast across Canada. An enclosure inside the back cover gives the addresses of these branches and the area served by each.

The staff of IDB welcomes opportunities to explain how the Bank can help meet the needs of particular businesses. The Bank has had considerable experience with a wide

range of businesses and their financial needs, and IDB officers can often be helpful in working out a solution to the financial problems of a business. Consultations are, of course, held in strict confidence.

More can be accomplished on a visit to an IDB office if the applicant comes prepared with adequate information about the business (including recent financial statements) and also about the project for which financing is required.





